THE JOURNAL

OF

POLITICAL ECONOMY

VOLUME 21 *December 1913* NUMBER 10

UNIFORM METHODS OF RAILWAY ACCOUNTING

The accounting department of a railroad company today is the result of a process of development which has been going on gradually for many years. When railroads were first operated in the United States, and for many years thereafter, the accounts were kept and the accounting compilations were made in the offices of the various traffic and operating officials; for example, the work of freight accounting was performed in the office of the general freight agent; the accounting for the passenger revenue or receipts was performed in the office of the general passenger agent; the accounting work in connection with the distribution of labor and material, and the compilation of the operating expenses of railroads were handled in the offices of superintendent, master-mechanic, master of transportation, and other operating officials. The final results were summarized in the various offices, then forwarded to the secretary, treasurer, general manager, president, or other designated officer, who issued periodical statements of the operation by combining these summaries received from the various officers.

In those days, the accounts were supervised by excellent men, but by men who were not trained accountants. The minds of the various operating and traffic officials were occupied with matters other than those pertaining to the methods of accounting; hence, the results were unsatisfactory, and frequently large losses of revenue occurred through the laxity in accounting methods.

Aside from the loss of revenue, the history of what had been accomplished was imperfectly written. The statements for the different departments or portions of the railroads, being made in different offices without any direct supervision by an officer charged with the duty of combining the reported results into one statement, were compiled with little thought of uniformity or convenience in consolidating the various statements into a comprehensive summary; therefore, comparisons were misleading, if not impossible, and the statements and summaries thus produced were of questionable value.

Furthermore, the various traffic and operating officials were not always diligent in calling the attention of the executive officers to unfavorable conditions in their own departments, but would sometimes render their statements so as to indicate the most advantageous showing for the individual at the head of the department. It is little wonder that undesirable practices grew up under such loose and disjointed methods of handling the accounting work of the railroad; indeed, when we take into consideration the fact that the heads of various departments had practically no check on their accounts or verification of them by any other department, those men are to be commended for the degree of success obtained under such unfavorable conditions; the fact that wrong practices grew up was simply the result of the natural tendency of human nature, which has existed for thousands of years and will always exist.

Uniformity with individual roads.—There can be no uniformity without a central supervising head. Gradually the owners and executive officers of the railroads felt the need of a central office, where the accounts of all departments could be carefully supervised and compiled by trained accountants, in order that the revenue and expenditure of a railroad might be surrounded with proper safeguards, that statistical data or history might be compiled on a uniform basis in a comprehensive manner, and that the attention of the executive officers might be called to unfavorable as well as to favorable conditions. Thus at first arose the necessity for uniformity of accounting methods on individual railroads.

In the early 60's the Pennsylvania Railroad Company organ-

ized and recognized the accounting department as a distinct department having supervision over all the accounts of the company. In 1870 the Cleveland, Columbus, Cincinnati, and Indianapolis Railway Co. made its auditor the head of the accounting department, with authority to supervise the accounts of the company. Like action was taken by the Louisville & Nashville in 1873, and by other roads successively down to the present time. Now each railroad has an accounting department separate and distinct from all other departments, in charge of an auditor, general auditor, comptroller, or other recognized head of that department. It will thus be seen that the accounting department and the accounting officers of railroads have been in active existence only some forty or fifty years.

The chief accounting officer of a few railroads is elected by the board of directors, but in the majority of instances he is appointed by the president or the active executive officer; he reports to such executive directly, and is responsible to him for the proper accounting of all receipts and expenditures of the company. He must also furnish a connected and truthful history of what has been accomplished by the carrier to the proper officers of the company through the medium of the income account statement, the balance sheet, and the required statistical data, all so arranged as to present instantly a comparison of current results with those of prior periods. He must also make special reports from time to time as conditions demand.

During the early period of the existence of the accounting department as such, and for some considerable time after the accounting departments were recognized by the executive officers, the traffic and operating and other officers were reluctant to acknowledge the authority of the chief accounting officer, the latter being looked upon as a sort of "necessary evil," always intermeddling with the affairs of other people. It is fair to say that the accounting officer sometimes deserved all of this sort of criticism which he received. At the present day, however, this feeling has been practically eradicated. The up-to-date chief accounting officer sincerely desires to co-operate with every officer of the company, and the other officers recognize the value of earnest co-operation

with the accounting officer, and court it. Thus it was that uniformity and efficiency in the accounting methods of each individual railroad were obtained by the establishment of the accounting department in charge of a trained railroad accountant, clothed with the requisite authority to prescribe and enforce the necessary accounting rules.

Uniformity for all railroads.—Prior to the adoption of standard time between certain meridians it was very difficult to secure serious consideration of any proposition for uniformity of practice among two or more railroads. No one knows or appreciates the debt of gratitude every resident of the United States owes to that epoch-marking event—the adoption of a standard time among all railroads, which soon became the standard for all people. It marks the beginning of co-operation, standardization, and uniformity.

Up to about twenty-five years ago, notwithstanding the uniformity of methods of individual railroads, there existed, so far as the accounting departments of different railroads on the continent of North America were concerned, the widest possible diversity of practice not only in things that pertained to internal administration, but also in matters that were the joint concern of connecting roads. Naturally, under the conditions with which the first railway accounting officer was confronted, his first duty was to bring about uniformity and efficiency of methods on the railroad which he served, and he had little time to think about the methods pursued by his neighbor. There was not the necessity for co-operation that exists today. At that time the crude system of rebilling at junctions was in existence, that is to say, each carrier treated other carriers in the same manner in which it treated shippers or consignees of freight; each carrier that received from another carrier a shipment of freight would rebill it at the junction point, and if the freight was destined to a point beyond his line, would deliver the shipment at the next junction, and collect from that railroad the charges for the haul over its line. The intermediate carrier in that case would be obliged to pay to the carrier from which it received the freight the charges for transportation to the junction point—the same as any other consignee.

However, some start had been made toward uniformity. Pas-

sengers were interchanged among railroads by the use of one ticket. This had been accomplished largely through the work of the Association of General Passenger and Ticket Agents, and methods (not uniform) of interline ticket accounts were established. Each railroad had its own plan and forms of reports for settling with other railroads for the amounts involved. The interchange of freight cars had necessitated settlements among carriers for the use of such cars by means of interline reports of various shapes and sizes, according to the tastes of the individual carriers. In this car-interchange settlement the Car Accountants' Association performed valuable service. The repairs to such cars while off the line of the owning carrier was a matter of mutual interest to all carriers, and the Master Car Builders' Association had arranged a workable method of accounting for such repairs.

Nearly thirty years ago there began to develop the idea of interline waybilling; that is to say, when a shipment of freight was transported over the rails of two or more carriers, instead of a separate waybill being made with a separate settlement for each, there was inaugurated, with some hesitation at first, the practice of making a waybill read from point of origin to destination routed via certain carriers. Each carrier was furnished with a copy of the waybill, and settlement for the proportions of the through revenue was accomplished in the accounting department of the respective carriers and adjusted between the general offices, instead of having the agents at junction points pay and collect the revenue with each delivery to a succeeding carrier. At first such through-billing was inaugurated between two carriers only, and then later between three and more; at the present time, waybills are made reading over the rails of any number of carriers, from point of origin to destination, and the movement of the freight is thus greatly facilitated.

The settlement of interline freight accounts brought the accounting officers together in more ways than one, and soon it was found that it would be greatly to the advantage of the carriers if some uniform plan for the settlement of interline freight accounts might be adopted. Hence, it came about that under date of November 5, 1887, a call was extended by twelve accounting officers

of important railways for a meeting to consider the method of settling interline freight accounts. The text of the call in part is as follows:

Attention has been called repeatedly within the last few months to the desirability of adopting a uniform method of settling joint freight accounts. The growth of the practice of billing through, and the increase in the mileage of roads, render present methods entirely inadequate. It has been suggested, therefore, that a meeting of the accounting officers of the various railroads be held, to agree, if possible, upon a uniform method of settling joint freight accounts. This seems to be the only way of arriving at a satisfactory result.

The meeting was held on December 7, 1887, and the records thereof show that the subject uppermost in the minds of the gentlemen there assembled was the matter of uniformity in handling interline freight accounts. Naturally, two factions immediately sprang up: (1) those who wanted to settle the accounts on the "forwarded" basis, that is, to include in the interline settlements for a given month all traffic that had been forwarded by one carrier to others regardless of when received by the destination or intermediate carriers; and (2) those accountants who desired to settle all traffic on the "received" basis, that is, to include in the interline settlement for a given month all traffic which reached destination, regardless of when it was forwarded. The question also of the date on which such settlements should be made was one which apparently needed uniformity, because it developed that while some roads were able to settle by the fifteenth of the subsequent month, other settlements were delayed in some instances as late as sixty days. At that meeting, a committee was appointed to consider certain subjects, the most prominent of which was the "forwarded" and the "received" basis. The report of the committee recommended the "forwarded" basis, but a minority report was also submitted, recommending the "received" basis. The session became so interesting that a vote *by roads* was taken, which resulted in 63 votes for the majority report, recommending the "forwarded" basis, and 18 votes for the minority report, recommending the "received" basis.

The act of Congress which became effective April 5, 1887 (the act which created the Interstate Commerce Commission), pro-

vided in Section 20 for certain reports from carriers and thereby accelerated uniformity of railway accounting methods. The accounting officers were not slow to recognize this new situation calling for the beginning of the supervision of the accounts of carriers, and accordingly, toward the end of this meeting, the following resolution was offered:

Resolved, In view of the requirements of the Interstate Commerce Commission in reference to the proposed uniform reports and for the consideration of other business, this committee be continued, and is hereby empowered to call a meeting of this Convention, at some convenient point, during the month of May or June next, or at any other time it may be deemed proper to do so.

Pursuant to that resolution a meeting of railway accounting officers was held in the Arlington Hotel, Washington, D.C., on March 28, 1888, to consider the proposed form of annual report to be made by railroad companies to the Interstate Commerce Commission, the auditor of the Interstate Commerce Commission having forwarded to the various railway companies a copy of such proposed form of annual report. At this meeting there were present sixty-one accounting officers representing sixty-eight railroads. The proposed form of annual report to be required by the Interstate Commerce Commission was discussed, page by page, and item by item. The auditor of the Interstate Commerce Commission was, by invitation, present throughout the meeting and participated freely in the discussion. As a result, some changes were made, but the form of the proposed report was not altered materially.

There was substantial uniformity in the accounting for the revenues of railroads by the carriers before the Interstate Commerce Commission began its supervision of the accounts of carriers, but there was no uniformity in the accounting for expenditures. As an instance of the diversity in methods of accounting for expenditures in existence at that time, the following quotation from the remarks of the auditor of the Interstate Commerce Commission in the discussion at this meeting will be interesting:

A suggestion is made that another page be added for roads that do not have construction accounts, but which include construction in the expense account, with other operating expenses. This page might be altered to cover

both cases, whether the expense was included in operating expenses or otherwise. . . . .

Since that was prepared it has come to my knowledge that many roads charge expenditures for improvements to operating expenses. Of course, it is desirable to know what the expenses for permanent improvements are, whether charged to operating expenses or not.

At that period the comparison of the stated operating expenses of one railroad with another on the basis of any unit had no value whatever because no two railroads included the same items in operating expenses. Therefore, the earlier annual reports to the Interstate Commerce Commission were of little value and the conclusions drawn from them were uncertain, and in many cases misleading. However, a start was made, however imperfect, toward uniformity. Had absolute uniformity been attempted at that time, it would have met with strong and determined opposition by railroad officials—accounting and others. Few comparisons were made by railroad officials of their own results with those on other railroads in detail. General comparisons were made, but owing to the great diversity of accounting methods no detailed comparison could be made. After the Interstate Commerce Commission began to publish figures showing the results from operation for all railroads in the United States combined and for each railroad separately, comparisons began to be attempted between different railroads, the result being, in nearly all cases, to locate differences in methods of accounting. This was especially true with regard to methods of accounting for expenditures.

The following resolution passed by the railroad accounting officers at the conclusion of this meeting on March 28, 1888, and the response thereto by the auditor of the Interstate Commerce Commission, are indicative of the spirit of co-operation manifested at the inauguration of the accounting and statistical requirements of the Interstate Commerce Commission.

[RESOLUTION]

Resolved, That this Convention recognizes the difficulties under which the Interstate Commerce Commission must have labored in connection with its proposed report and begs to commend and congratulate Mr. McCain, the Auditor of the Commission, upon the result of his labor, in that the form now before us is very simple and, at the same time, very complete.

That the Convention also desires to recognize and record the courtesy of Mr. McCain in inviting suggestions looking to the improvement of the form, and wishes to thank him most cordially for this invitation, as kind as it is unique.

That this Convention desires also to say that its suggestions are to be considered as made merely for the purpose of securing uniform interpretation and the best showings, and not for the purpose of curtailing or reducing the information desired.

[RESPONSE]

It seems proper that I should express my appreciation of your testimonial. This particular branch of the railroad business, as most of you know, is comparatively new to me, my former experience having been in connection with pool affairs. Upon entering the service of the Commission, the first duty that devolved upon me was to prepare a form for the financial reports to be made by carriers, as required by Section 20, of the Act to Regulate Commerce. The basis for the preparation of such a form was necessarily the specific requirements of the Act.

It will, I know, be very gratifying to the Commission to learn that the form in its present shape has been so generally well received, and personally, I am exceedingly gratified that you have found so little fault with it, and that so few changes have been recommended, and I thank you for your kindly expressions.

Prior to adjournment, a resolution was adopted creating a committee of fifteen for the purpose of organizing a permanent national organization of railway accounting officers. Such a committee was appointed, and that committee issued under date of May 30, 1888, a call for a meeting at Hotel Brunswick, New York City, on July 25, 1888, for the purpose of forming a permanent organization. Pursuant to said call, the meeting was held, lasting two days. The permanent organization was effected under the name, which has not since been changed, of "Association of American Railway Accounting Officers." Constitution and by-laws were adopted, officers elected, and the association placed in thorough working condition. From that time on, this association has been a most important factor in the promotion of uniform methods of railway accounting.

Article II of the constitution, expressing the object of the association, shows that the watch words were "Uniformity and Improvement." It reads as follows:

The object of the Association shall be the furthering of the best interests of the companies represented by it and shall have no other purpose. Its

object shall be the better organization and conduct of the accounts of carriers, and the securing to them of the advantages that should follow the interchange of ideas and experiences among its members; to aid in securing more perfect means of determining balances between carriers and greater definiteness and promptness in paying the same; greater uniformity in method of adjusting joint accounts; more equitable plans for settling claims between carriers; greater certainty and promptness in collecting freight charges at competing points; better means of adjusting balances at junctions where freight is rebilled; the obtaining of greater uniformity, wherever practicable, in the governmental returns required of railroads; the greater enlightenment of those who belong to it; the more general systematization of railway accounts; and, finally, the benefiting of railways in every proper way that comes within the scope of such an association.

At that meeting papers were read on various topics, among which was one on "The Coupon Ticket Accounts of Railroads," from which the following is quoted:

> The extremes of the former and present system are perhaps best illustrated by recalling the old method of waybilling passengers on our early railroads—something similar to a passenger list of an ocean steamer—the conductor being furnished with a list in order to properly check his passengers, while today a traveler may take a sleeping car at New York en route for Chicago or St. Louis in the West, without coming in contact with any of the train conductors on the different railroads over which he passes, the sleeping car attendants acting as the medium, lifting the entire ticket on first presentation and surrendering the proper coupons to the railroad conductors of the train as they are demanded, and by a well-devised system of receipts and checks, the accounting is simple, satisfactory, and comprehensive, and with as perfect a check as when passengers were aroused on each division when a different conductor took charge of the train.

Thus the change in methods of accounting for passengers and the uniformity therein, up to that time, were of great benefit to travelers as well as to the railroads. Through all these papers which were read at that meeting, the idea of uniformity was uppermost.

A special meeting of the Association of American Railway Accounting Officers was held in St. Louis, Mo., at the Southern Hotel, on January 25 and 26, 1889, at which practically the entire time was consumed in the discussion of a uniform method of settlement of interline freight accounts, the prominent feature being the forwarded v. the received basis. The necessity of such uni-

formity was strikingly stated by the president of the association in his opening address in the following words:

> The passenger department, through the conventions of the General Passenger and Ticket Agents' Association, was able in the early history of railroads to formulate a method of settling joint passenger accounts that has worked admirably, that has saved the accounting officers of railroads immense trouble and annoyance in accounts, and also saved the companies untold expense, as everyone knows. Now, we have never had the aid of such a convention as that in connection with the settlement of joint freight accounts and the result is diversity, confusion, and irritation—a muddle. Mixed up with the joint affairs of railroads are innumerable things that need the careful attention of committees representing the accounting officers of the country as a whole, so that more uniform, and therefore, economical methods of doing business may be agreed upon.

These accounting officers were not acquainted with each other prior to the formation of the association and their opinions of the ability and of the motives of each other, gained through correspondence, were not exactly complimentary. Therefore, it was no easy task to induce individual members to sink their personal preferences in behalf of the common good—a thing absolutely necessary to the promotion of uniformity. It required meeting after meeting, days and days of discussion, hours and hours of time spent with each other socially between meetings, even to weaken the dividing walls between existing practices on individual railroads. It must be remembered that these men had labored at home for many, many years, and their work had all been performed within the four walls of their offices. They had not had the stimulating and broadening effect of contact even with each other, or the beneficial influence of contact with the executive officers of various roads and the general business public. But there were truly great men among the founders of the association, who immediately used all their persuasive powers to promote a "get-together" spirit on a "give-and-take" basis.

Finally they came together in a uniform plan for settlement of interline freight accounts on the *received* basis which has been amended and improved from time to time, but the basic principles of which have not been substantially changed. The Interstate Commerce Commission, in all its study of railroad accounts, has

included nothing in any of its numerous accounting orders to cause any change in the uniform methods of settlement of interline revenue accounts, freight, passenger, etc. That fact is a tribute to the efficient work of the railway accounting officers.

The plans of interline freight, passenger, and other accounts have been reduced to such uniformity of practice and understanding that today when interline traffic arrangements between two or more railroads are contemplated not a minute of time is lost arranging details of accounting. The association's uniform and accepted plan is thoroughly understood by all railway accounting officers, and goes into effect automatically with the movement of traffic. The association plans have benefited the entire shipping and traveling public because they always have reference to expediting the movement of goods or the journey of passengers with no delay or annoyance.

Certainly the uniformity with reference to revenue accounts has been beneficial throughout to the railroads, and not a single railroad officer would go back to the former methods if he could. It was brought about largely through the volunteer efforts of the railway accounting officers themselves, except the uniformity produced through the abolition of rebates, which was brought about solely by the Hepburn act. The central supervising heads were the Association of American Railway Accounting Officers and the federal government.

A distinct step toward uniformity in freight accounting was the abolition of "rebates" made effective by the *actual* supervision and inspection of the accounts of carriers provided for by the 20th section of the Hepburn act, reading as follows:

> The Commission may, in its discretion, prescribe the forms of any and all accounts, records, and memoranda to be kept by carriers subject to the provisions of this Act, including the accounts, records, and memoranda of the movement of traffic as well as the receipts and expenditures of moneys. The Commission shall at all times have access to all accounts, records, and memoranda kept by carriers subject to this Act, and it shall be unlawful for such carriers to keep any other accounts, records, or memoranda than those prescribed or approved by the Commission, and it may employ special agents or examiners, who shall have authority under the order of the Commission to inspect and examine any and all accounts, records, and memoranda kept by such carriers. This provision shall apply to receivers or carriers and operating trustees.

In case of failure or refusal on the part of any such carrier, receiver, or trustee to keep such accounts, records, and memoranda on the books and in the manner prescribed by the Commission, or to submit such accounts, records, and memoranda as are kept, to the inspection of the Commission or any of its authorized agents or examiners, such carrier, receiver, or trustee shall forfeit to the United States the sum of five hundred dollars for each such offense and for each and every day of the continuance of such offense, such forfeitures to be recoverable in the same manner as other forfeitures provided for in this Act.

Any person who shall wilfully make any false entry in the accounts of any book of accounts or in any record or memoranda kept by a carrier, or who shall wilfully destroy, mutilate, alter, or by any other means or device falsify the record of any such account, record, or memoranda, or who shall wilfully neglect or fail to make full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the carrier's business, or shall keep any other accounts, records, or memoranda than those prescribed or approved by the Commission, shall be deemed guilty of misdemeanor and shall be subject, upon conviction in any court of the United States of competent jurisdiction, to a fine of not less than one thousand dollars nor more than five thousand dollars or imprisonment for a term not less than one year nor more than three years, or both such fine and imprisonment.

The rebate was paid by railroads on demand of shippers, the demand often accompanied by the threat to divert traffic to competing lines if the rebate were not granted. The justification was the recognition of the wholesale price as less than the retail price which mercantile establishments recognize today as heretofore. The wholesale price is recognized openly and sanctioned by governmental authority when it makes the carload freight rate less than the package freight rate and thus gives the advantage to the large dealer who is able to ship and order in carload quantities. The wholesale price is recognized by the federal government in paying the railroads for the transportation of mail matter, but not in selling mail service to its people. The rebate was a confidential contract, but the fact of its payment was a matter of common knowledge. However, publicity—that great promoter of the enforcement of the laws of our Creator as well as the laws written by man—ended the practice of the payment of rebates by railroads. All railway officials were glad that the rebates were effectually abolished, but as the accountant has a natural aversion to recording transactions in a secret manner, he was peculiarly pleased at the result.

As to uniformity in accounting for expenditures, that has been the result of the Hepburn act, which provided for a central supervising head for railway accounts. The accounting for expenditures does not involve the same interline settlements as is required in the settlement of the revenue accounts. The trainmen and enginemen of a carrier stop at the end of their employers' rails, while the goods and passengers go on to another carrier. The station employees, shopmen, workmen on tracks, structures, etc., are employed exclusively by one carrier, and the rules and regulations concerning the accounting for the expenditures for their labor and for material used by them may be quite different on one railroad from those on another without any embarrassment or inconvenience to one another.

Prior to July 1, 1907, no uniform classification of operating expenses existed among carriers. It is true that the carriers were required to report their operating expenses to the Interstate Commerce Commission annually, using a uniform classification prescribed by that body, yet the carriers kept as many classifications of operating expenses as there were railroad systems, and at the end of each year transposed the figures into the classification required for their annual reports to the Interstate Commerce Commission. The carriers were not obliged to keep their books, records, and accounts in any specific manner, but were only required to make annual reports in a prescribed form. This plan accomplished little in the direction of uniformity. It produced figures in annual reports which were supposed by some to be compiled on a uniform basis, but which were not, and hence many erroneous conclusions have been drawn.

Not until the meeting at Cape May, N.J., July 9 and 10, 1890, did the accounting for expenditures receive the attention of the Association of American Railway Accounting Officers. At that meeting a paper was read on "Railway Disbursements" and an amendment to the constitution was proposed to provide for a third standing committee (the preceding two being on freight and passenger accounts). At the meeting held at St. Louis, May 27 and 28, 1891, the proposed amendment was adopted, and a standing committee on disbursements was immediately thereafter appointed.

That committee presented its first report at the meeting held at Chicago, May 25 and 26, 1892. This committee had few matters referred to it and accomplished but little during the earlier years of its existence, thus indicating the lack of any substantial desire or necessity on the part of the carriers for uniformity in disbursement accounts of railways.

The uniformity of disbursement accounts of railways began to be established in 1907, when pursuant to the provisions of the 20th section of the Hepburn act, the Interstate Commerce Commission prescribed a uniform classification of operating expenses defining what should and should not be included in each class thereof, and ordered that said classification be used in keeping the books, records, and accounts of the carriers, and also ordered that no other classification be used. Uniformity of disbursement accounts thus came solely by order of the Interstate Commerce Commission, as the central supervising head.

For some time prior to 1906, a desire was expressed to many members of the association to bring officially before its members matters pertaining to so-called higher accounting. Their attention had been devoted largely to freight accounting and, in a somewhat smaller way, to passenger and disbursement accounts. It was felt that matters of higher accounting should be taken up, such as treatment of the balance sheet, income account, annual reports, operating statistics, etc. A committee presented this proposed advance step to the association at its meeting at Bluff Point, N.Y., June 27, 28, and 29, 1906. The committee was called "Committee on Corporate, Fiscal, and General Accounts," and was to be composed of twenty-five chief accounting officers of railroads. The association approved the report, provided for such a special committee, and gave notice of an amendment to the constitution, which was adopted at the following meeting, making this a standing committee of the association. It so happened that the Hepburn act was approved while the Bluff Point meeting was in session and all agreed that the services of this new committee as well as all other committees should be tendered to the federal government in the carrying-out of the provisions of the 20th section. It had become the fixed custom of the association years

before to invite to the annual meetings representatives not only of the Interstate Commerce Commission, but also of other departments of the government at Washington. The Committee on Corporate, Fiscal, and General Accounts, being a representative body of chief accounting officers of railroads, has assisted in practically all of the work of formulating the instructions governing the uniform railway accounts that now exist. Its services have been acknowledged by the Interstate Commerce Commission in various publications. Other committees of the association have also rendered assistance in the task of the Interstate Commerce Commission. The Commissioners wisely desired to know first existing accounting practices of carriers before ordering a uniform system of accounts, and the information, advice, and assistance given by these committees of railway accounting officers greatly facilitated the work. The Interstate Commerce Commission stated at the outset in 1906 that it desired the uniform system of accounts which it should promulgate as the law of the land to represent the "best American practice." With very few exceptions this aim was accomplished. It will thus be seen that the Interstate Commerce Commission first obtained from the carriers their various methods and then selected what in its judgment was the best.

The uniformity of railway accounts for each individual railroad was attained by the establishment of the accounting officer, who was given authority to prescribe accounting methods, and who, by inspection and verification, saw to it that his instructions were observed. Likewise uniformity of railway accounts among all railroads was attained by the establishment of one supervising agency—the Interstate Commerce Commission—but only after that body was given authority to prescribe accounting methods, and, by inspection and verification, was able to see to it that its orders were obeyed. Without such central supervising body or agency, clothed with proper authority, uniformity in accounting for expenditures by railroads would never have been realized.

Comments and criticisms.—The following is a list of the orders of the Interstate Commerce Commission prescribing uniform accounts for carriers:

Classification of Operating Revenues—1907.
Classification of Operating Expenses—1907.

Classification of Expenditures for Road and Equipment—1907.
Classification of Locomotive-Miles, Car-Miles, and Train-Miles—1907.
Classification of Revenues and Expenses for Outside Operations—1908.
Classification of Expenditures for Additions and Betterments—1909.
Form of General Balance Sheet Statement—1909.

An order of the Interstate Commerce Commission in the Matter of Destruction of Records of Steam Roads—1910.

Form of Income and Profit and Loss Statement for Steam Roads—1912.

Interpretations of Accounting Classifications containing various questions bearing upon the interpretation of accounting classifications previously prescribed by the Interstate Commerce Commission and the answers thereto—1912.

Since these classifications were promulgated, amendments have been issued to some of them, so that in writing for copies of the classifications, the request should call for all supplements and amendments in addition to the original classification.

Operating revenues.—For a great many years, the gross receipts for transportation by carriers have been called earnings. This unfortunate use of the word "earnings" has been the cause of much misunderstanding on the part of the public. The business man, be he manufacturer, banker, broker, jobber, retailer, etc., associates naturally the word "earnings," not with the gross amount of sales or receipts, but with the net result after deducting the expenses of conducting the business, taxes, and rentals. Accordingly, when the press referred to the earnings of railroads of the United States as two and one-half billions of dollars, the impression on the mind of the reader was quite different from what it would have been if they had referred to the net result after deducting operating expenses, taxes, and rentals, which three items absorb at least 75 per cent of the gross receipts. Six or seven hundred millions of earnings per annum would state the results from operation of railroads in the United States in figures which would at once be compared with the net earnings of the readers and convey correct impressions. This situation was only partially remedied in the new classification prescribed by the Interstate Commerce Commission by calling the gross receipts "revenue" instead of "earnings." The uniform methods of railway accounts prescribed by the Commission now provide "Operating Revenues" representing the gross receipts in connection with transportation

operations. To treat the public fairly and state the facts, the gross receipts should be called *gross receipts*.

In the uniform accounts promulgated by the Interstate Commerce Commission, the operating revenues have been divided into twenty-one different accounts, as follows:

No. 1. Freight Revenue.
No. 2. Passenger Revenue.
No. 3. Excess Baggage Revenue.
No. 4. Parlor and Chair Car Revenue.
No. 5. Mail Revenue.
No. 6. Express Revenue.
No. 7. Milk Revenue (on passenger trains).
No. 8. Other Passenger Train Revenue.
No. 9. Switching Revenue.
No. 10. Special Service Train Revenue.
No. 11. Miscellaneous Transportation Revenue.
No. 12. Station and Train Privileges.
No. 13. Parcel-Room Receipts.
No. 14. Storage—Freight.
No. 15. Storage—Baggage.
No. 16. Car Service.
No. 17. Telegraph and Telephone Service.
No. 18. Rents of Buildings and Other Property.
No. 19. Miscellaneous.
No. 20. Joint Facilities Revenue—Dr.
No. 21. Joint Facilities Revenue—Cr.

Under the former classification in effect prior to July 1, 1907, there were but five classes of revenue; namely, freight, passenger, mail, express, and miscellaneous. The four first mentioned, namely, freight, passenger, mail, and express revenue, comprise 97 per cent of the revenue of the railroads of the United States, and that 97 per cent is divided into four classes, while the remainder —3 per cent—is subdivided into 17 classes. This is a needless subdivision, an unnecessary burden to the carriers. In the published reports to the Interstate Commerce Commission, only a few of the more important revenue accounts are given and the remainder of the twenty-one are bunched together under one general heading. It is difficult to understand what good purpose may be served by burdening the carriers with the additional expense of all of these

subdivisions of the revenue, which do not seem to be considered important enough to be published in the statistics of railways by the Interstate Commerce Commission.

Of these accounting classifications, the most far-reaching in the inauguration and establishment of uniformity are the following:

Operating Expenses.
Expenditures for Road and Equipment (Construction of New Lines).
Expenditures for Additions and Betterments (Permanent Improvements of Existing Lines).
Income and Profit and Loss Account.

Prior to the dates on which these various orders became effective, some carriers charged to operating expenses items which others charged to construction, additions, and betterments, or some similar account. Some charged to operating expenses items which by others were charged to income or profit and loss account, and so on. The four classifications referred to laid down the boundary lines very definitely for these classes of expenditures so that all carriers are now classifying them alike.

The lines, especially between operating expenses and additions and betterments, were drawn very distinctly. It was formerly the practice with many railroads to charge to operating expenses the cost of all renewals of rails, even though the new rails might be heavier than the old; all renewals of bridges, even though the new bridges might be of steel and the old ones, wooden; cost of passing tracks, cost of all ballast, etc. The reason therefor, which has merit, was that those and similar expenditures resulted in no increase in revenue and were necessary to keep the railroad up to the standards demanded by the times; but there was no uniformity. The orders of the Interstate Commerce Commission require that only the cost of renewing existing track and structures *in kind* shall be charged to operating expenses, and that the excess shall be charged to additions and betterments, and added to the property account. Thus, if rails weighing ninety pounds per yard are substituted for lighter rails weighing seventy-five pounds per yard, the excess weight, or fifteen pounds per yard at the price of the new rails, must be added to the property account. If a steel bridge costing $30,000 is substituted for a wooden one, to replace

which in kind would cost $10,000, $20,000 of the expenditure for the steel bridge must be added to the property account. The entire cost of all new passing tracks must be added to the property account, and the cost of all ballast where track has not previously been ballasted must be added to the property account, and so on. Such requirements are fair and reasonable, and are generally accepted without protest. However, it should be noted that the changes in accounting methods referred to in this paragraph all have a tendency to reduce operating expenses as compared with former accounting methods.

Cost of improving grade line.—One provision in this line of separation between operating expenses and additions and betterments seems to be unfair and unreasonable. That is the treatment of expenditures for improving the grade and alignment of an existing railroad. If the work is done on the line of the original road by cutting down humps and filling in sags, the entire expense thereof is chargeable to additions and betterments and added to the property account. The Interstate Commerce Commission orders and requires such correct accounting. If the work is done by relocating the line a short distance from the old line, buying a new right of way, and constructing a new road with the desired grade, the entire cost of the new work less the salvage recovered from the track material taken up, sale of land no longer used, etc., is properly chargeable to additions and betterments, and added to the property account. However, the Interstate Commerce Commission orders the carrier in the latter case to credit additions and betterments with the cost of the old line, less salvage, and charge the amount to operating expenses. Such charge is improper and puts into operating expenses, not an expenditure, but a book adjustment entry representing the expenditure made years before and properly charged at that time to the property account.

To illustrate: Suppose the improvement of grade line contemplated would cost $1,200,000 if done on the old line, and $600,000 if done by relocating the line, and that the cost of the old line was $400,000. If the work is done on the old line, the entire cost, $1,200,000, must be added to the property account and nothing charged to operating expenses; while if the improvement, viz.,

reduction of grade, is done by relocating the line, then only $200,000 net ($600,000 expenditure less $400,000 cost of old line) must be added to the property account and double that net amount or $400,000 charged to operating expenses. If the grade is reduced vertically, 100 per cent of the cost is added to the property account with no charge to operating expenses, while if done laterally, only 33⅓ per cent of the expenditure is added to the property account, and 66⅔ per cent is charged to operating expenses. This is carrying the theory of charging operating expenses with the cost to renew in kind property replaced, beyond the point of its practical application, to the ridiculous. The investment in the property is increased by the cost of the improvement of grade line, and such cost should not be written out of the investment account, either in whole or in part. The Interstate Commerce Commission has wisely named the investment account "Property Investment" and all cash invested in such improvements should rest in that account, without diminution by book adjustments.

When a structure is replaced with one of superior and more expensive construction, as, for example, the replacement of a wooden bridge with a steel bridge, the orders of the Commission require such portion of the cost of the steel bridge as represents the cost to renew the wooden bridge in kind to be charged to operating expenses. That is a reasonable requirement because operating expenses should not be allowed to escape any part of the full cost of maintaining the wooden bridge, and because the cost of the wooden bridge is already in the property account. Operating expenses are thus properly charged with the cost of maintaining the structure constantly used by the carrier; but when, in the improvement of the grade by relocation of the line, operating expenses are charged with the cost to renew the old line in kind, and, necessarily, at the same time with the maintenance of the new line (a cost which at first is heavier than later when the track is seasoned), the result is a duplicate charge to operating expenses which distorts the charge for maintenance and causes an understatement of the net revenue. This requirement is the result of the narrow application of the theory that all property which ceases to be used must be written out of the property account, so that

when the valuation of a railroad is made, the books of the carrier shall represent the existing property in actual use. Due regard is not thereby given to the effect on operating expenses. Book charges or credits which do not represent transactions but cover adjustments should not be made to operating expenses, or to operating revenues. When such charges are thus made, the so-called "net operating revenue" is not revenue, but a net result, which is reached by combining adjustments with the actual results from operation.

If the Interstate Commerce Commission insists upon adjustment entries by which the cost of the tracks which cease to be used, such as those mentioned in the illustration, must be written out of the property account, then the charge should be made to profit and loss, which represents the accumulated surplus of prior years produced in part by such lines which now cease to be used. The inclusion of such adjustments in the current operating expense accounts not only causes the net operating revenue to be understated, but embarrasses the attempt to compare the cost of maintenance of different railroads. The net operating revenue reported by a railroad should represent revenue and not the result of book adjustments.

It is fair to state that some railway accounting officers of long experience and high standing approve the Commission's methods for the treatment of the cost of grade-line improvements. There are honest differences of opinion on this subject. But the writer believes with all sincerity that if a carrier has invested $10,000,000 in the original construction of a railroad and if later, when traffic has developed and the service to the public demands an improved grade line, the carrier expends $1,000,000 for such improvements, the investment has actually increased to $11,000,000. No book adjustment should be made which will change that statement of fact.

Action was brought before the Commerce Court by the Kansas City Southern Railway Co. to have that ruling set aside so far as certain grade-line improvements on that railroad were concerned. The Commerce Court sustained the Interstate Commerce Commission, not on the ground that the principles of accounting were right, but on the ground that the Commission acted within its

authority in prescribing the rule and that no one was deprived of property by the enforcement thereof.

In any event uniformity is, by this rule, destroyed, because the maintenance accounts of some railroads will contain large items of book adjustments, while others will contain no such items, but will contain only expenditures for the maintenance of the property.

Depreciation of rolling stock equipment.—The Interstate Commerce Commission made a serious mistake when it ordered the railroads to charge to operating expenses depreciation on rolling stock. It is apparent that the order was made without sufficient study and consideration, because it simply reads: "This account includes a monthly charge of one-twelfth of — per cent per annum of the original cost (estimated, if not known) record value, or purchase price of steam locomotives, to provide a fund for replacement when retired." A separate order is issued for the different classes of rolling stock, but the order with respect to each class is the same. The result of leaving blank the percentage of original cost to be charged has been to promote a lack of uniformity, because the charges against operating expenses for depreciation of rolling stock have ranged all the way from nothing to 6 or 7 per cent per annum. Many railroads have made no charges whatever to the depreciation account and others have charged ridiculously small percentages, while some roads that are more prosperous have charged strong percentages for depreciation. There existed widely different views among accounting officers as to whether or not depreciation should be charged on rolling stock or any other portion of the property of the railroad. Those who advocate depreciation claim that the life of a car or a locomotive may be approximated as twenty, thirty, or forty years; if, for example then, the life of a piece of equipment is considered to be thirty years on the average, one-thirtieth of the original cost of the car should be charged out each year, so that, at the end of thirty years, there would be nothing left in the property account representing the value of that car. Those who are opposed to depreciation claim that the railroad company as a common carrier is in a peculiar situation when compared with other industrial enterprises; that is to say, the railroad company is permanent and cannot go out of business; moreover

its business is that of transportation; namely, carrying goods and persons from one point to another, not buying and selling. Opponents of a depreciation charge maintain that a piece of equipment which is kept in repair is as good for the purpose for which it was purchased at the end of twenty or twenty-five years or thirty years as it was when new, and that, if the standard be not changed through obsolescence, the different parts of the piece of equipment may be renewed from time to time to the end that any such piece of equipment may become practically permanent, thus minimizing the depreciation to a very small percentage. Others who are opposed to depreciation claim that if any depreciation is charged, it should be against income or profit and loss account, and not against operating expenses. The net operating revenue of a railroad company should represent revenue and not charges based on estimates of the amount of depreciation or other book adjustments.

Operating revenue in gross should be based on money to be collected from the public, and operating expenses should be based on money that is paid out for labor, material, etc., so that the net operating revenue will represent dollars which would eventually reach the treasury of the company. However, whatever merit may be in these theories, the fact still remains that there now exists anything but uniformity in the railway accounts so far as depreciation on rolling stock is concerned.

A preliminary abstract of statistics of common carriers for the year ended June 30, 1911, published by the Interstate Commerce Commission, presents figures taken from the reports of sixty-four of the most important carriers. It shows that eighteen of that number, or more than 28 per cent, made no charge whatever to operating expenses for depreciation of rolling stock. The abstract also shows that of the forty-six railroads which did charge depreciation on rolling stock, some charged sixty times as much as others on a car-mileage basis. Uniformity is absent. The failure of the Interstate Commerce Commission to prescribe percentages of depreciation and its apparent indifference concerning the large number of railroads operating upward of 50,000 miles of railroad which made no charge to operating expenses for depreciation of equipment are significant.

Taxes.—Prior to July 1, 1907, taxes were treated by some railway accounting officers as a part of operating expenses, while others excluded them from operating expenses and treated them as a charge against the net income of the company. The Commission adopted a middle ground. Taxes, although excluded from operating expenses, are not, however, put with other deductions from income, but are made a distinct and separate deduction from net operating revenue (operating revenues less operating expenses), leaving net operating income. This treatment meets with universal commendation.

Rentals and hire-of-equipment balance.—Under the former practice, rentals and hire of equipment—the latter being virtually a rental—were included in operating expenses by many railroads. In their annual reports to the Interstate Commerce Commission, all carriers were required to throw such rentals into operating expenses when the net balances were debits, and into gross earnings when the balances were credits. In either event, the net balance—debit or credit—was reflected in the net earnings. The present orders of the Commission take these items out of operating expenses and earnings and transfer them to the income account. These items largely represent payments by railroads to other railroads. Therefore, while the change causes a considerable modification of the statements for certain railroads, the combined result for all railroads is not seriously changed by this feature of the Commission's accounting orders.

Traffic expenses.—Prior to July 1, 1907, the expenses for salaries, traveling expenses, etc., incurred by the freight and passenger traffic departments soliciting, promoting, and supervising traffic were required by the Commission to be included in the expenses of conducting transportation. The existing accounting orders of the Commission adopted the practice of several railroads by requiring such expenses to be shown separately under the caption "Traffic Expenses."

Joint facility accounts.—One of the decided changes from former methods included in the Commission's accounting orders is that requiring the separate statement in distinct accounts of the amounts billed by carriers in charge of the operation of facilities

used jointly by two or more carriers against tenant carriers. Formerly such charges were credited and charged through the detailed operating expense accounts. For example, suppose two carriers, A and B, use jointly thirty miles of track. A maintains the property and charges B a portion of the cost thereof on an agreed basis. Suppose A charges B 50 per cent of such cost. Such charge will include the cost of renewals of rails, ties, bridges, ballast, etc. Under the old plan A would credit the individual operating expense accounts with 50 per cent of the cost for each account. Suppose the tie renewals for one year cost $8,000; A would charge B $4,000 of that amount, leaving $4,000 in his own account charged to renewals of ties. This led to frequent complications on individual railroads; hence the Commission ordered joint facility accounts to which A would credit the entire amount charged against B, leaving the full charge for renewals of ties, for example, in the tie account. To a similar joint facility account B charges on his books the amount he pays A. In this manner the original charges made by both A and B are not disturbed by these charges and credits for the use of joint facilities. By means of these joint facility accounts the public is informed as to the amount of such interroad payments.

Outside operations.—Another decided change from former practices was the segregation of certain services performed by railroads for which a charge was made over and above the rate or fare for the strictly transportation service, under the head of "Outside Operations." Included therein were the services rendered by dining-cars, restaurants, sleeping-cars, parlor cars, elevators, stock-yards, ferries, etc., etc. The revenues received for such services and the operating expenses thereof, by order of the Commission, are no longer included in the operating revenues and operating expenses of carriers, respectively, but are classified and reported separately. This improves the statistical units pertaining strictly to the transportation service.

Switching charges.—Under the former conditions switching charges were treated in a variety of methods, but in making their annual reports to the Interstate Commerce Commission, carriers were required to combine the switching charges paid and received

into one account. If the balance was a debit, such debit was included in operating expenses, and if a credit, such credit was included in earnings. Now, under the order of the Commission, the carriers must report all switching collected under the caption "Switching Revenue" and the payments of switching absorbed to equalize delivery must be deducted from the "Freight Revenue." Other switching payments must be charged to appropriate operating expense accounts. This is a distinct improvement.

Discount on stock and bonds.—It has been the universal practice of carriers to charge to the property the discount and commission on securities issued to obtain money to construct railroads. The existing accounting orders of the Interstate Commerce Commission do not change that practice with regard to commissions paid, but prohibit carriers from charging the discount to the property account except for the period during construction. Suppose A sells $10,000,000 of 4 per cent fifty-year bonds to obtain cash to construct a railroad. The price is 90, a discount of 10 per cent, or $1,000,000—an average of $20,000 per annum during the life of the bond. Suppose the construction lasts two years. A may charge to property investment account the proportion of the discount accruing during those two years, or $40,000. The remaining discount, viz., $960,000, must be deducted from income at the rate of $20,000 per year, or the entire $960,000 may be charged direct to profit and loss, but only $40,000 may go to the property account. This is on the theory that a 4½ per cent bond would have sold at par but practical men know the bonds of some companies would not bring par at any rate of interest. The rate of interest is not the factor which absolutely determines the rate of discount; much depends on the financial responsibility of the borrower.

Again, suppose A sells the $10,000,000 of bonds at a discount of 5 per cent with a commission of 5 per cent. The transaction is virtually the same as when sold at a discount of 10 per cent, but in this case, the property account may be charged with the entire commission, viz., $500,000 plus two years pro rata of the discount, viz., $20,000, or $520,000 against a charge of only $40,000 when sold at a discount of 10 per cent.

Once more, suppose the bonds are sold without discount, but

A pays 10 per cent commission. Then A may charge the entire commission of $1,000,000 to property investment account, although the cash realized by A is the same as in the two former instances when the bonds were sold at 10 per cent discount with no commission, and when they were sold at 5 per cent discount with 5 per cent commission—absolutely no uniformity. The discount and commission are the cost to the carrier of purchasing the money and should be included in the property account. A might negotiate with a contractor to construct the railroad for $10,000,000 of bonds, in which event the entire amount of the loan would be, without question, charged to the property investment account. The methods of accounting ought to provide for the entire amount of the loan to be charged to the property investment account in each instance.

Property paid for by appropriations from income.—Another departure from the former practice which was inaugurated in the new system of accounts promulgated by the Interstate Commerce Commission which is very commendable is the requirement to set up in the property account expenditures for additional property which represent additional capital investment, appropriated out of income. That is to say, if a railroad desires to appropriate five millions of dollars of its surplus to pay for double-tracking a portion of its line, the additional investment of $5,000,000 is now required to be added to the property account, showing a $5,000,000 increase in the investment in road and equipment. Under the former practice, it was customary to make such charges directly against the income or profit and loss account and not increase the amount of the property investment thereby. When such charges are made to the property account, there is required to be shown on the liability side of the balance sheet an offsetting amount under the caption "Additions to Property since June 30, 1907, through Income." The investment in road and equipment because of such appropriations for the purchase of property out of income has been considerably understated in the past instead of being overstated, as is the popular impression. Such understatements will be developed through the valuation of the railroad property which has recently been ordered by an act of Congress.

Insurance premiums.—The Interstate Commerce Commission has wabbled in its treatment of premiums paid for insurance. As to premiums paid for fidelity insurance, provision has been consistently made for charging them to the accounts to which the salaries and expenses of the bonded employees are chargeable. For example, the premium for fidelity bonds of station employees is charged to "Station Supplies and Expenses"; of general officers to "Salaries and Expenses of General Officers," etc. But at first the Commission ordered the premium for fire insurance to be charged, not to the accounts benefited, but to separate "Insurance" accounts under the five general subdivisions of operating expenses. Then the Commission changed its requirements and ordered all fire insurance premiums to be charged to general expenses under a separate insurance account. This transferred a large item of expense from the maintenance subdivision to general expenses. This expense is incurred almost exclusively for the benefit of the maintenance accounts, and should not be charged to general expenses. Recent utterances of the Commission indicate that they have recognized this error and that general expenses will be relieved of this erroneous charge and fire insurance will at least be placed in the subdivisions benefited by the expense.

Injuries to persons.—Prior to the promulgation of the 1907 accounting orders of the Commission, the amounts paid in connection with injuries to persons were quite generally charged to the account under the general subdivision known as "Conducting Transportation." This was in conformance with the former requirements of the Commission. The 1907 orders provided separate accounts for this expense under "Maintenance of Way and Structures," "Maintenance of Equipment and Transportation Expenses." Formerly the one account included all payments whether on account of employees, passengers, or trespassers, and whether the injury was caused by a train accident, shop accident, or in construction of a bridge. The new accounts are a decided improvement. Now payments for injuries in connection with maintenance of way and structures work are included under that subdivision of operating expenses; those in connection with maintenance of equipment work under that subdivision, and only

those incurred directly in connection with movement of traffic on trains or at stations are included under transportation expenses.

Interpretations—queries.—In the administration of these new uniform accounts, many questions arose as to the proper classification of certain items, which, by their nature, might be placed in two or more accounts, simply because it is not humanly possible to anticipate every single item that will appear in the books and records of carriers. Railway accounting officers all over the land wrote to the Interstate Commerce Commission about this or that item. A working arrangement for handling such queries was established as follows: These communications were transposed into the form of queries. Tentative answers were given immediately by the Commission, so that the inquirers might have something to use in the meantime. Then the queries and the answers were sent by the Commission to the president of the Association of American Railway Accounting Officers, who referred them to the appropriate committee of that association. These queries and answers were then carefully considered in committee sessions, the answers approved, modified, or reversed, and the findings of the committees reported to the annual convention of the association at which are present from 200 to 300 railway accounting officers. The committee findings are reviewed in the conventions and approved, revised, or reversed. The findings of the association are then reported to the Commission, after which the Commission issues to all carriers a bulletin of queries and answers as an order of the Commission, and such answers then become the law of the land the same as though they had been embodied in the original accounting orders. While the findings of the Association of American Railway Accounting Officers are generally adopted by the Commission, it must not be understood that all meet that happy fate. Sometimes the bulletins show that those findings have been exactly reversed. However, the foregoing plan gives the Commission the benefit of the views not only of their own experts, but of all the railway accounting officers in the United States, working singly, in committees, and in annual conventions.

This paper has been confined to the matter of accounts, as distinguished from statistics—the term "accounts" being understood

to mean the recording and classification, in a systematic manner, of the financial transactions of the carriers. From these accounts, together with the various traffic units, statistics are compiled showing units of service, units of revenue, and so on. The Interstate Commerce Commission regards its work concerning the accounts as practically completed. New classifications will be promulgated as of July 1, 1914, but it is quite likely that those new classifications will make no substantial changes in matters of principle, but will clarify the text and instructions where necessary, and adjust inconsistencies that have inadvertently crept in, in this mass of compilations. The Commission is now turning its attention to the matter of statistics of railways. The latter subject is receiving serious consideration in joint conferences of representatives of the Interstate Commerce Commission and of committees from the Association of American Railway Accounting Officers.

This paper has dealt largely with generalities and has omitted the details of the various classifications of receipts, expenditures, etc. Lack of space forbids going into further detail. Those who are interested in this subject and desire to study details should obtain copies of the various classifications from the Interstate Commerce Commission, which will contain the texts of the orders of the Commission, the general instructions pertaining to each classification, and the items in each classification together with a text for each item, showing just what is included under each account in detail.

It is a matter of some regret that the Interstate Commerce Commission has not employed more men who have had actual railroad accounting experience, or has not done the next best thing—given heads of departments who have not had actual experience the benefit of the opportunity to inspect the accounts of carriers in their details. Those who have charge of this important work should, from time to time, visit personally not only the general accounting officers of different railways, but the division, district, and shop accounting officers, and should learn at first hand just how the accounts are compiled from the original records through to the finished reports and statements that go to the Interstate Commerce Commission.

Owing to the diversity of practice concerning the accounting for expenditures of railway companies that existed prior to the promulgation of the accounting orders of the Interstate Commerce Commission, no accounting officer was fully satisfied with those orders. On the whole, however, the result was a good job. The accounting orders reflect great credit on the representatives of the Interstate Commerce Commission who patiently and carefully waded through the mass of detail and intricacies necessary to establish what was properly termed "the best American practice."

FRANK NAY

CHICAGO